

CITY COUNCIL MEETING  
JANUARY 18, 1989

1987/88 ANNUAL AUDIT  
AND MANAGEMENT LETTER  
**AS RECEIVED FROM**  
ERNST AND WHINNEY  
**ACCEPTED FOR**  
FILING

CC-21(a)

The City Council received for filing the 1987-88 Audit and  
Management Letter.

*Return  
to Jennifer*

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F I N A N C E   D E P A R T M E N T   M E M O R A N D U M

To:            Thomas A. Peterson, City Manager

FROM:        Robert H. Holm, Finance Director/Treasurer

DATE:        January 10, 1989

SUBJECT:     Ernst & Whinney Management Letter and  
              "Investment Policy Report"

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MANAGEMENT LETTER:

Prior Year Comment--Operating Transfers

Last year, Ernst & Whinney recommended we implement a computer program to print twelve months' operating transfer activity on a single **report**. This would speed up their audit work and our **staff** work. My comment this year is the *same* as the previous year. That is, we have this programming request listed, but it doesn't have as high a priority as **other** projects, *such* as, **payroll**, utility billing, combining annual financial reports, etc.

Self-Insurance Reserve

Ernst & Whinney is recommending a full-time "risk management" person to review the reserves set up by the Workers' Compensation and Liability Administrator. I believe this is a significant cost item, and, until we can justify adding this position to the City, I would recommend we continue to accept the reserves as stated.

Payroll Costs

Ernst & Whinney has recommended we review the actual payroll costs to budget amounts on a more frequent basis. We concur and plan to review these costs on a monthly basis and **recommend** adjustments to appropriations when needed.

Personnel Files

*Ernst & Whinney* recommended timely recording of pay rates and other personnel information on the personnel records. I don't believe this is a major problem, however, the addition of staff approved by Council should alleviate this **problem**.

Employee Time Cards

Ernst & Whinney recommends more rigid enforcement of approvals on time cards. We have requested all City supervisors to approve time cards, however, *some* occasionally slip through without approval. We are **adding** a certification **statement** to each time card that will require each supervisor to certify the work has been performed. This statement will be printed on each new time card issued as soon as we can use up the old time cards. We **hope** this certification statement and **closer** supervision by our **staff** will eliminate this problem.

Compensated Absences

Ernst & Whinney is requesting closer monitoring of the data and formula used to calculate these liabilities. The Governmental Accounting Standards Board (GASB) requires this liability to be stated at the end of each fiscal year. What these figures represent is a theoretical accounting concept based upon the assumption the City would have to close its doors at June 30. This then would obligate the City to pay its employees for any unused vacation and sick leave. The sick leave calculation is based upon the existing formula that allows those employees eligible for retirement be granted paid health premiums for a percent of their unused sick leave based upon years of service with the City. In the past, Ernst & Whinney performed this calculation; however, this year, we calculated most of the figures ourselves, and some of the data came from both their offices and ours. We shall try to fully automate this function next year, and, hopefully, eliminate this problem.

Reporting Software

Ernst & Whinney is recommending we prepare the "Combined Annual Financial Reports" (CAFR). For the past twelve years, the responsibility for the preparation of the CAFR has been the auditors' based upon the request for proposal and fee for services. I concur with their comment and feel it is appropriate we prepare the CAFR; the auditors would then audit the CAFR. This should save audit fees in ensuing years. We are looking into obtaining software for this, and we are contacting other California cities that may be able to assist us. This will be a major project for our Data Processing and Accounting staff.

Improved Use of Idle Assets

Ernst & Whinney recommends we contact other cities who may be interested in using our heavy duty crane. At the time this purchase was included in the 1987-88 Budget, one of the primary reasons was to have one readily accessible in the event it was needed. Other cities have the same problem we had, and that is when you need one you cannot find one, or, if you can, the time it takes to transport it is considerable and costly.

Capitalization Policy

Ernst & Whinney recommends we review expenditures, for capitalization purposes, prior to the close of the fiscal year or at least quarterly. We agree and plan to do so for the next fiscal year.

"Revenue/Expenditure Reports"

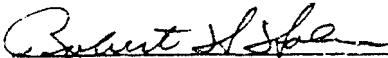
Ernst & Whinney recommends the "Revenue/Expenditure Reports" (for capital construction projects) indicate budget appropriations for work that can be accomplished in one fiscal year versus the cost of the entire capital project. When we prepare the CAFR on our own, we may be able to add an additional column indicating what would be a current fiscal year budget. This information may be significant for an auditor to use for comparison purposes. However, it may not mean that much to non-audit type persons.

January 10, 1989

"INVESTMENT POLICY REPORT":

Findings

1. Ernst & Whinney states the Library reinvests **stock** dividends to purchase additional shares of stock which is considered speculative in nature. I have **forwarded** this item to the City **Librarian** for his comment.
2. Ernst & Whinney states the "Investment Policy Report" requires **all** securities to be transferred to **the City's** designated bank, **and** that we **are** presently holding **GMA** securities in our vault. While there is nothing **unsafe** or wrong with holding **our own** securities, the "Investment Policy Report" does **not** provide for it. We are contacting several regional **banks** regarding **safekeeping** services.
3. Ernst & Whinney states we did **not** amortize the discount we received **on** the purchase of federal securities. This **was** an oversight, **and** we **have** taken care of **this** item with an adjusting **journal entry**.
4. Ernst & Whinney states we picked **up** the wrong June 30, 1988 figure on the market value of the federal securities purchased from Midland Montague. In doing this, we understated the value of **the** securities. We **adjusted** our books to show the increase of \$526,131 in market value at June 30, 1988.



Robert H. Holm  
Finance Director/Treasurer

RHH:ss

CITY COUNCIL

JAMES W. PINKERTON, Jr. Mayor

JOHN R. (Randy) SNIDER

Mayor Pro Tempore

DAVID M. HINCHMAN

EVELYN M. OLSON

FRED M. REID

# CITY OF LODI

CITY HALL, 221 WEST PINE STREET

CALL BOX 3006

LODI, CALIFORNIA 95241-1910

(209) 334-5634

TELECOPIER (209) 333-6795

THOMAS A. PETERSON

City Manager

ALICE M. REIMCHE

City Clerk

BOB McNATT

City Attorney

January 24, 1989

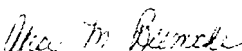
Ernst and Whinney  
555 Capital Mall, Suite 650  
Sacramento, CA 95814

Gentlemen:

This letter will confirm the action taken by the Lodi City Council at its regular meeting of January 18, 1989 whereby the City Council, by motion action received for filing the 1987/88 Audit and Management letter as prepared by your firm.

Should you have any questions regarding this matter, please do not hesitate to call this office.

Very truly yours,

  
Alice M. Reimche  
City Clerk

AMR:jj

cc: Robert Hoim  
Finance Director

Management Letter

# City of Lodi

June 30, 1988

**E&W** Exnst & Whinney



555 Capitol Mall, Suite 650  
Sacramento, California 95814

916/447-3237

The City Council  
City of Lodi  
Lodi, California

We have audited the financial statements of the City of Lodi for the year ended June 30, 1988 and have issued our report thereon dated November 18, 1988. As part of our audit, we made a study and evaluation of the system of internal accounting control only to the extent we considered necessary to determine the nature, timing, and extent of our auditing procedures.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Lodi taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness at June 30, 1988. The following suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the use of management. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Lodi, is a matter of public record.

*Ernst & Whinney*

November 18, 1988

## ACCOUNTING SYSTEMS AND INTERNAL CONTROLS

### Prior Year Comment - Operating Transfers

Operating transfers during the year are determined by manually searching through each fund's equity account in each month's general ledger. Year-to-date summary reports of fund balance activity would enhance the process of identifying operating transfers for financial analysis and state reporting.

### Self-Insurance Reserve

The year-end accrual of claims for the self-insurance reserve are computed by the carrier. These claims are currently reviewed only for reasonableness. A full-time "risk management" employee on staff to review the technical aspects of claims submitted would ensure that the review and monitoring of workers' Compensation claims is appropriate and cost effective.

### Payroll Costs

A comparison of actual payroll costs to budgeted amounts should be performed consistently. We recommend that the Assistant Finance Director compare these figures on a monthly basis and that unusual variances be investigated timely. This process should result in better control over payroll costs and more accurate information regarding budget variances.

### Personnel Files

Documentation of changes in pay rates and filing of other personnel information is an important aspect of payroll internal controls. We recommend that the City record and file changes in a timely manner to realize strengthened internal controls.



### Employee Time Cards

All employee time cards should be approved throughout the pay period.' We suggest that the City more rigidly enforce existing policies which state that department supervisors approve time cards. We also recommend that the payroll clerk return unapproved time cards to the appropriate supervisors for approval. The enforcement of these policies should strengthen internal controls by gaining assurance that employees are not being paid for hours they have not worked.

### Compensated Absences

Accurate data and timely computation of vacation and sick leave accruals are necessary for proper recording and monitoring of these liabilities. We recommend a formal process be documented to ensure that errors in future computations are minimized. This process should improve the accounting for the vacation and sick leave liability.

## ADMINISTRATIVE AND OPERATIONAL CONTROLS

### Reporting Software

An automated system for compiling the financial records into the necessary financial statements for governmental external reporting purposes should be obtained. We recommend that the City locate the appropriate software and implement the applicable financial reporting procedures as this will result in a more efficient year-end audit as well as provide the City with a better financial tool for internal reporting and review purposes throughout the year.

#### Improved Use of Idle Assets

The City recently purchased a twenty-ton crane which may be idle during the year. We recommend that the City contact other municipalities within 100 miles to inform them of the availability of the crane. Thus, when the crane is not being used, it could be rented out for a fee. This same process should be considered for any other potentially idle assets.

#### Capitalization Policy

It is our understanding that the City reviews expenditures in applicable funds for capitalization several months after the end of the fiscal year in which the expenditure arose. We recommend that the City review expenditures for capitalization purposes at least quarterly and capitalize fixed asset expenditures at that time. This will result in the City's fixed asset records being more useful for internal and external reporting purposes.

#### Revenue/Expenditure Reports

The Appropriations (budget) column of the Revenue/Expenditure Reports is currently stated on a project basis only. We recommend the Report reflect the budget on a fiscal year basis so that the comparison of budget to actual becomes meaningful. This can be accomplished by either adding a column to the Report to denote actual project revenues/expenditures on a fiscal year basis or keep manual accumulations of necessary information for accurate comparison purposes. The availability of easily accessible budget-vs.-actual project information should facilitate better monitoring of variances from budget.



555 Capitol Mall, Suite 650  
Sacramento, California 95814

916/447-3237

The City Council  
City of Lodi  
Lodi, California

We have applied certain agreed-upon procedures enumerated below with respect to the Statement of Investment Policy adopted by Council Resolution 87-121. Our review was made solely to assist you in evaluating compliance with that policy. The procedures we performed are summarized as follows:

- a. We confirmed the City's investments as of June 30, 1988.
- b. We reviewed the monthly investment reports submitted to the City Council by the Treasurer.
- c. We reviewed the System of Internal Investment Controls.

In connection with the procedures referred to above, except as set forth in the accompanying schedules, no matters came to our attention that caused us to believe that investment balances might require adjustment. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the Statement of Investment Policy and does not extend to any financial statements of the City of Lodi, taken as a whole.

*Ernst & Whinney*

November 18, 1988

Incidents of Noncompliance with the  
Statement of Investment Policy  
City of Lodi  
Year Ended June 30, 1968

Findings

1. The Statement of Investment Policy states that the City may not speculate or purchase stocks. However, the City Library's investment portfolio contained common stock valued at \$96,000 at June 30, 1988. The library obtained the stock through bequests, stock dividends and dividend reinvestment programs. This reinvestment is considered a purchase of stock. Furthermore, the continued holding of the stock is speculative.
2. The Statement of Investment Policy states "All securities [will be] transferred to the City's designated bank. ~~The~~ City is currently keeping the certificates of deposit and Government National Mortgage Association (GNMA) certificates in the City Hall safe.
3. During our audit procedures we noted that the City has not amortized the discount on the purchase of U.S. Treasury Bills in accordance with generally accepted accounting principles. An adjustment to increase the balance by \$38,800 was required to properly reflect the current book value of the portfolio.
4. The June 30, 1988 Summary Report of Investments showed an incorrect present market value of \$495,974 for the Midland/Montagu U.S. Treasury Bills. The amount should have been \$526,131.

Audited Financial Statements  
and Other Financial Information

City of Lodi

June 30, 1988

Audited Financial Statements  
and Other Financial Information

CITY OF LODI

June 30, 1988

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REPORT OF INDEPENDENT AUDITORS

The City Council  
City of Lodi  
Lodi, California

We have audited the accompanying general purpose financial statements of the City of Lodi, California, as of and for the year ended June 30, 1983, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion,

Complete records are not maintained for general fixed assets and, therefore, the general purpose financial statements referred to above do not include a statement of general fixed assets, which should be included to conform with generally accepted accounting principles.

The records of the enterprise funds were incomplete as to fixed assets and related depreciation. Because we were unable to satisfy ourselves as to the proper recording of the fixed assets and related depreciation by appropriate audit tests or by other means as a result of such incomplete records, we are unable to express an opinion on the accompanying financial statements of the enterprise funds.

In our opinion, except that the omission of the statement of general fixed assets described above results in an incomplete presentation, the general purpose financial statements, other than the enterprise funds referred to above, present fairly, in all material respects, the financial position of the City of Lodi, California, at June 30, 1983, and the results of its operations and the changes in financial position of its proprietary fund types and similar trust funds for the year then ended in conformity with generally accepted accounting principles.

■  
  
**The City Council**  
City of Lodi  
Lodi, California

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Lodi, California. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Ernst & Whinney*

November 18, 1988



COMBINED BALANCE SHEET - ALL FUND TYPES  
AND ACCOUNT GROUP

CITY OF LODI

June 30, 1988

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Group	Totals
	<del>General</del>	Special Revenue	Debt Service	Enterprise	Internal Service	Trust and Agency	General Long-Term Debt	(Memorandum Only)
ASSETS								
Cash and certificates of deposit- Note C	\$3,366,517	\$3,004,189	\$140,116	\$11,818,173	\$ 910,475	\$2,636,779		\$21,876,250
Investments-Note C	2,041,267	1,821,571	84,958	7,165,877	552,062	1,598,796		13,264,531
Receivables (net of allowances for uncollectibles):								
Accounts	315,135	2,229		1,710,023	1,080	359,000		2,387,467
Special assessments		1,145,000						1,145,000
Interest	71,900	22,570		237,321	16,306	1,750		349,927
Due from (to) other funds or governmental agencies-Note D	427,600	(141,831)						285,769
Supplies inventory	73,940			1,319,186				1,393,126
Other assets	9,475	17,845		18,974	32,000	169		78,463
Fixed assets				31,818,318				31,810,318
Accumulated depreciation				(12,307,991)				(12,307,951)
Amount available in Debt Service Fund							\$ 225,074	225,074
Amount to be provided for retirement of general long-term debt-Note G							3,204,615	3,204,615
 TOTAL ASSETS	<u>\$6,305,914</u>	<u>\$5,871,573</u>	<u>\$225,074</u>	<u>\$41,779,881</u>	<u>\$1,511,924</u>	<u>\$4,596,494</u>	<u>\$3,429,689</u>	<u>\$63,720,549</u>

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Group —	Totals
	General	Special Revenue	Debt Service	Enterprise	Internal Service	Trust and Agency	General Long-Term Debt	(Memorandum Only)
LIABILITIES AND FUND EQUITY								
LIABILITIES								
Accounts payable and other liabilities	\$ 438,569	\$ 117,014		\$ 787,023	\$ 23,638	\$ 1,933		\$ 1,368,177
Accrued salaries and wages	492,843	54,775		101,944		4,654		654,216
Payable from restricted assets - Note F						4,080,456		4,080,456
Due to other funds		68,500				359,100		427,600
Accrued compensated absences	540,465			299,192			\$ 994,689	1,834,346
Deferred revenue		1,145,000						1,145,000
Accrued self-insurance claims					982,016			902,016
Special Assessment bonds payable - net of discount - Note G		983,252						983,252
General obligation bonds payable - Note C								
TOTAL LIABILITIES	1,471,877	2,368,541		1,188,159	1,005,654	8,446,143	2,435,000 3,429,689	2,435,000 13,910,063
FUND EQUITY								
Retained earnings				40,591,722	506,270			41,097,992
Fund balances:								
Reserved for encumbrances	307,611	277,902				137		585,650
Reserved for supplies inventory	203,301							203,301
Unreserved:								
Designated for debt service			\$225,074					225,074
Designated for subsequent years' expenditures	4,323,125	1,880,871				54,703		6,258,699
Undesignated		1,344,259				95,511		1,439,770
TOTAL FUND EQUITY	4,834,037	3,503,032	225,074	40,591,722	506,270	150,351		49,810,486
COMMITMENTS AND CONTINGENCIES - Notes I, J and K								
TOTAL LIABILITIES AND FUND EQUITY	\$6,305,914	\$5,871,573	\$225,074	\$41,779,881	\$1,511,924	\$4,596,494	\$3,429,689	\$63,720,549

See notes to financial statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
AND EXPENDABLE TRUST FUND

CITY OF LODI

Year Ended June 30, 1988

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Expendable Trust	
REVENUES					
Taxes	\$ 7,476,816	\$1,602,337			\$ 9,079,153
Licenses and permits	426,699				426,699
Intergovernmental revenues	1,865,462	1,201,838			3,067,300
Charges for services	2,985,501	41,862			3,027,363
Fines, forfeits and penalties	268,225	48,068			316,297
Use of money and property	478,238	1,196,506		\$ 10,697	1,685,441
Miscellaneous revenues	<u>401,173</u>	<u>39,407</u>			<u>440,580</u>
TOTAL REVENUES	<u>13,902,118</u>	<u>4,130,018</u>		<u>10,697</u>	<u>18,042,833</u>
EXPENDITURES					
Current:					
General government	2,529,711	551,976			3,081,687
Public protection	6,123,230	673,160			6,796,390
Public works	2,056,385	125,425			2,181,814
Sanitation	2,757,419				2,757,419
Literary		654,541			654,541
Parks and recreation	1,695,376				1,695,376
Capital outlay	825,481	2,410,002			3,235,483
Debt service:					
Principal retirement			\$355,000		355,000
Interest and fiscal charges			<u>101,057</u>		<u>101,057</u>
TOTAL EXPENDITURES	<u>15,987,606</u>	<u>4,415,102</u>	<u>456,057</u>		<u>20,858,767</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,085,488)	(285,086)	(456,057)	10,697	(2,815,934)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	5,870,105		459,850		6,325,955
Operating transfers out	<u>(2,239,659)</u>	<u>(80,000)</u>			<u>(2,319,659)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,630,446</u>	<u>(80,000)</u>	<u>459,850</u>		<u>4,010,296</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPEND- ITURES AND OTHER USES	1,544,958	(365,086)	3,793	10,697	1,194,362
Fund balances - July 1, 1987	<u>3,289,079</u>	<u>3,868,118</u>	<u>221,281</u>	<u>143,803</u>	<u>7,522,281</u>
FUND BALANCES - JUNE 30, 1988	<u>\$ 4,834,037</u>	<u>\$3,503,032</u>	<u>\$225,074</u>	<u>\$154,500</u>	<u>\$ 8,716,643</u>

See notes to financial statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL AND SPECIAL REVENUE FUNDS

CITY OF LODI

Year Ended June 30, 1988

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Taxes	\$ 7,522,145	\$ 7,476,816	\$ (45,329)	\$ 1,539,285	\$ 1,602,337	\$ 63,052	\$ 9,061,430	\$ 9,079,153	\$ 17,723
Licenses and permits	364,270	426,699	62,429				364,270	426,699	62,429
Intergovernmental revenues	1,828,670	1,865,462	36,792	1,385,690	1,201,638	(183,852)	3,214,360	3,067,300	(147,060)
Charges for services	2,535,325	2,985,501	450,176	38,000	41,862	3,062	2,573,325	3,027,363	454,038
Fines, forfeits and penalties	212,500	268,229	55,729	44,600	48,068	4,068	256,500	316,297	59,797
Use of money and property	388,325	470,238	89,913	450,595	1,196,506	745,911	838,920	1,674,744	835,824
Miscellaneous revenues	192,120	401,173	209,053	9,000	39,407	30,407	201,120	440,580	239,460
TOTAL REVENUES	13,043,355	13,902,118	858,763	3,466,570	4,130,018	663,448	16,509,925	18,032,136	1,522,211
EXPENDITURES									
Current:									
General government	2,267,592	2,529,711	(262,119)	675,556	551,376	123,580	2,942,148	3,081,687	(138,533)
Public protection	5,857,271	6,123,230	(265,959)	673,160	673,160		6,530,431	6,796,390	(265,959)
Public works	2,150,242	2,056,389	93,853	537,915	125,425	412,440	2,588,157	2,181,814	506,343
Sanitation	2,451,864	2,757,419	(305,555)				2,451,864	2,757,417	(305,555)
Library				700,880	654,541	46,339	700,830	654,541	46,339
Parks and recreation	1,666,356	1,695,376	(29,020)				1,566,356	1,695,376	(29,020)
Capital outlay	3,696,795	825,481	2,871,314	4,951,938	2,410,002	2,551,936	8,688,733	3,235,483	5,453,250
TOTAL EXPENDITURES	18,090,120	15,987,606	2,102,514	7,579,449	4,415,104	3,164,345	25,669,569	20,402,710	5,266,859
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,046,765)	(2,085,488)	2,961,277	(4,112,879)	(285,086)	3,827,793	(9,159,644)	(2,370,574)	6,789,070
OTHER FINANCING SOURCES (USES)									
Operating transfers in	2,199,810	5,870,105	3,670,295				2,199,810	5,870,105	3,670,295
Operating transfers out	(405,275)	(2,239,659)	(1,834,384)	(100,000)	(80,000)	20,000	(505,275)	(2,319,659)	(1,814,384)
TOTAL OTHER FINANCING SOURCES (USES)	1,794,535	3,620,446	1,835,911	(100,000)	(80,000)	20,000	1,694,535	3,550,446	1,855,911
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,252,230)	1,544,958	4,797,188	(4,212,879)	(365,066)	3,847,793	(7,465,109)	1,179,872	8,644,981
Fund balances-July 1, 1987	3,289,079	3,289,079		3,868,118	3,862,118		7,157,197	7,157,197	
FUND BALANCES-JUNE 30, 1988	\$ 36,849	\$ 4,834,037	\$ 4,797,188	\$ (344,761)	\$ 3,503,032	\$ 3,847,793	\$ (307,912)	\$ 8,337,069	\$ 8,644,981

See notes to financial statements

COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS/FUND BALANCES - ALL  
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

CITY OF LODI

Year Ended June 30, 1988

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type Non- Expendable Trust</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>		
OPERATING REVENUES				
Charges for services	\$27,907,863	\$ 930,651		\$28,838,514
TOTAL OPERATING REVENUES	27,907,863	930,651		28,838,514
OPERATING EXPENSES				
Personal services	2,326,241	242,609	\$ 107,554	2,686,604
Supplies, materials, and services	3,804,986	266,543	348,947	4,440,476
Electric, sewer, and water	15,307,739			15,307,539
Depreciation	1,112,164			1,112,164
Benefit payments		668,985		668,985
Refunds	245,327			245,327
TOTAL OPERATING EXPENSES	22,806,457	1,198,337	456,501	24,461,295
NET OPERATING INCOME (LOSS)	5,101,406	(267,686)	(456,501)	4,377,219
NONOPERATING REVENUES				
Sewer bond taxes	275,234			275,234
Interest revenue	1,447,859	88,478		1,536,337
Rent	121,766		7,950	129,716
Other	353,034		598,957	861,991
TOTAL NONOPERATING REVENUES	2,197,893	88,478	606,907	2,893,278
INCOME (LOSS) BEFORE OPERATING TRANSFERS	7,299,299	(179,208)	150,406	7,180,497
Net operating transfers in (out) NET INCOME	(4,054,075)	323,562	216,590	(3,513,916)
	3,245,224	144,364	276,996	3,666,584
Retained earnings/fund balances (deficit) - July 1, 1987	37,346,498	361,909	(261,145)	37,427,262
BALANCES (DEFICIT) - JUNE 30, 1988	\$40,591,722	\$ 506,270	\$ (4,149)	\$41,093,843

See notes to financial statements

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION -  
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

CITY OF LODI

Year Ended June 30, 1988

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u> Non- Expendable Trust	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>		
SOURCE OF WORKING CAPITAL				
Operations:				
Net income	\$3,245,224	\$ 144,361	\$ 276,996	\$3,666,581
Depreciation not requiring working capital	<u>1,112,164</u>			<u>1,112,164</u>
TOTAL SOURCE OF WORKING CAPITAL	<u>4,357,388</u>	<u>144,361</u>	<u>276,996</u>	<u>4,778,745</u>
USE OF WORKING CAPITAL				
Acquisition of fixed assets	<u>1,501,498</u>			<u>1,501,498</u>
NET INCREASE IN WORKING CAPITAL	<u>\$2,855,890</u>	<u>\$ 144,361</u>	<u>\$ 276,996</u>	<u>\$3,277,247</u>
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL				
Cash and investments	\$ 568,222	\$ 151,110	\$(334,972)	\$ 384,360
Receivables	236,537	5,716	508,757	751,010
Due from other fur' or governmental agencies	(4,998)			(4,998)
Supplies inventory	75,452			75,402
Other assets	2,541	(1,415)	(500)	626
Accounts payable and other liabilities	1,992,845	(11,275)	106,633	2,088,203
Accrued salaries and wages	(21,783)		(2,922)	(24,705)
Due to other funds	7,861			7,861
Accrued compensated absences	(737)			(737)
Accrued self-insurance claims		275		225
NET INCREASE IN WORKING CAPITAL	<u>\$2,855,890</u>	<u>\$ 144,361</u>	<u>\$ 276,996</u>	<u>\$3,277,247</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CITY OF LODI

June 30. 1988

NOTE A--FINANCIAL REPORTING ENTITY

For financial reporting purposes, in conformance with NCGA Statement 3, the City includes all funds, account groups, agencies, boards, commissions, and authorities that are controlled by or dependent on the City's executive or legislative branches (the Mayor or the Council, respectively). Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, obligations of the City to finance any deficits that may occur, or receipt of significant subsidies from the City. Based on the foregoing criteria, all funds and account groups of the City, except for the general fixed asset group of accounts *for* which complete records are not maintained, are included in the City's financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City summarized below conform to generally accepted accounting policies for governmental entities, except that complete records are not maintained for fixed assets.

Basis of Presentation: The financial transactions of the City are recorded in individual funds and an account group. The various funds and account group are reported by type in the financial statements. Amounts in the "Totals (Memorandum Only)" columns in the financial statements represent a summation of the combined financial statement line items of the fund types and account group and are presented only for analytical purposes. The summation includes fund types and the account group that use different bases of accounting, both restricted and unrestricted **amounts**, interfund transactions that have not been eliminated, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City.

The City uses the following fund categories, fund types, and account group:

General Fund: To account for all financial resources except those required to be accounted for in another fund,

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Special Revenue Funds:** To account for the proceeds of specific revenue sources, other than expendable trusts, or capital projects, that are legally restricted to expenditures for specific purposes.

**Debt Service Funds:** To account for the accumulation of resources for, and payment of, general long-term debt principal and interest.

**Enterprise Funds:** To account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Internal Service Funds:** To account for the financing of services provided by one department to other departments of the governmental unit on a cost-reimbursement basis.

**Trust and Agency Funds:** To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds and nonexpendable trust funds.

**General Long-Term Debt Account Group:** To account for unmatured general long-term liabilities of the City.

For financial reporting purposes, the special assessment fund, which was shown separately in previous years, has been combined with the special revenue fund for the year ended June 30, 1988. The effect **was** to decrease the special revenue fund balance as of July 1, 1987 by \$723,197. Special assessments are levied and collected by the County and are recognized as income when received. Special assessments receivable are recorded as deferred revenue since the amounts are not considered available under generally accepted accounting principles.

**Basis of Accounting:** Governmental, expendable trust, and agency funds are accounted for on the modified accrual basis of accounting. Governmental and expendable trust fund revenues are recognized when received in cash except those subject to accrual, which are recorded as receivables when measurable and available to pay current period liabilities. Expenditures are recognized on the accrual basis, except for principal and interest of general and special assessment long-term debt, which is recognized when due.



NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary and nonexpendable trust funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred.

Budgetary Accounting: An operating budget is adopted each fiscal year for the general and special revenue funds on the same modified accrual basis used to reflect actual revenues and expenditures. Budgetary control is exercised at the department level. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any supplemental appropriations that amend the total expenditures of any fund require City Council approval. Reported budget amounts are as originally adopted or as amended by City Council resolution. Unencumbered appropriations lapse at year-end.

Pooled Cash and Investments: Cash balances of most City funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to each of the funds based on the fund's average cash balance. Investments are stated at cost.

Inventories: Inventory-type items are considered expenditures at the time of issuance of supplies. Inventories of supplies are stated at the lower of cost (generally determined on a weighted average basis) or market.

Fixed Assets: Complete fixed asset records for the enterprise funds are not maintained. As a result, records are also incomplete for depreciation.

Compensated Absences: The City records liabilities, discounted to present value, for future compensated absences (sick leave and vacation pay) earned and vested for the General Fund and Enterprise Funds. Vacation time vests without restriction to substantially all employees. Sick leave vests only to employees who are eligible for retirement from the City and is based on years of service. Amounts classified as current have been included in current year operations. Amounts determined to be noncurrent for the General Fund have been recorded as liabilities of the General Long-Term Debt Account Group.

Encumbrances: Encumbrances are established in the general and special revenue funds to recognize future obligations of the City. They cease to be encumbrances when paid or when the actual liability is recorded.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTES B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity: Amounts reported as designated for subsequent year's expenditures in unreserved fund equity relate to unused appropriations for which there are no purchase orders or contracts, but are expected to be expended during the next fiscal year.

Property Taxes: The City receives property tax revenues based on an allocation factor calculated by the County of San Joaquin under the provisions of State of California Proposition 13. Property taxes are received from the County throughout the year and are recognized as income when received. There was no receivable at year-end. Collections in 1988 were \$3,338,000.

Sales and Use Taxes: The City receives an allocation of sales and use taxes from the State of California monthly and recognizes the revenues when received. The City receives 1% of the 6% sales tax assessed within City limits.

Grants and Other Governmental Revenues: On grants where expenditures of funds are the prime factor for determining earnings of grant funds, the receivable and revenue are recognized when the expenditures have been incurred. Amounts due from other governmental agencies and the related revenue thereon are recorded when earned.

Interfund Transactions: During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by City Council.

Internal service funds are used to record charges for services to all City departments and funds as operating revenue. The funds so charged record these payments to the internal service funds as operating expenses.

The General Fund provides administrative services to Enterprises Funds. Amounts charged to a fund for these services are based on the City's central service cost allocation plan and are treated as a reduction of expenditures in the General Fund and as operating expenses in the Enterprise Funds.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Self-Insurance: The City provides workers' compensation benefits and public liability and damage benefits under self-insured plans. Estimated liabilities for benefit payments related to outstanding claims are recorded at year-end.

NOTE C--CASH AND INVESTMENTS

At year-end, the carrying amount of the City of Lodi cash and certificates of deposits was \$21,876,250. Of this amount, \$10,216,000 was insured through the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation, \$4,080,000 was covered by collateral held in the pledging **banks'** trust departments and the remainder was uninsured and uncollateralized.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer broker or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the City's name.

	Category			Carrying	Market
	1	2	3	Amount	Value
Government National					
Mortgage Association	\$1,970,099			\$ 1,970,099	\$ 1,895,431
U.S. Treasury Notes	2,993,740			2,993,740	2,975,400
Merrill Lynch Institutional					
Fund, Inc.			\$2,774,016	2,774,016	2,774,016
U.S. Treasury Bills	<u>526,676</u>			<u>526,676</u>	<u>526,131</u>
	<u>55,490,515</u>	<u>0</u>	<u>\$2,774,016</u>	8,264,531	8,170,978
Local Agency					
Investment Fund (Not subject					
to categorization)				<u>5,000,000</u>	<u>5,000,000</u>
Total investments				<u>\$13,264,531</u>	<u>\$13,170,978</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE D--GRANTS

The total amount of grants made to the City was approximately \$2,927,000, of which the City expended \$2,142,000 through June 30, 1988. Unearned grant revenue at year-end amounted to \$142,000. The amount of grants available for future use at June 30, 1988 was \$785,000.

NOTE E--DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system, that acts as a common investment and administrative agent for participating public entities within the state of California.

The system covers substantially all employees, except elected officials and those compensated on an hourly basis who were hired after May 31, 1966. The City's payroll for employees covered by the system for the year ended June 30, 1988 was \$9,366,000. The City's total payroll for the same period was \$10,827,000.

Safety employees are required to contribute 9 percent of their annual salary to the system, and all other employees are required to contribute 7 percent. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE E--DEFINED BENEFIT PENSION PLAN (Continued)

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1987. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.5 percent per year compounded annually, (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 2 percent per year, attributable to seniority/merit, and (d) no post retirement benefit increases.

The total unfunded pension benefit obligation applicable to the employees was \$5,458,537 at June 30, 1987 as follows:

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$18,356,355
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Current employees:

Accumulated employee contributions including allocated investment earnings	7,242,192
Employer-financed vested	8,233,537
Employer-financed non vested	<u>410,572</u>

Total pension benefit obligation	34,242,656
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Net assets available for benefits at cost (market value of \$36,037,717)	<u>28,784,119</u>
UNFUNDED PENSION BENEFIT OBLIGATION	<u>\$ 5,458,537</u>

Contributions Required and Contributions Made

PERS uses the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. PERS also

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE E--DEFINED BENEFIT PENSION PLAN (Continued)

uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends on June 30, 2000.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The contribution to the system for 1988 of \$2,200,712 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1987. The contribution consisted of: (a) \$1,642,601 normal cost (17.5 percent of current covered payroll) and (b) \$558,111 amortization of the unfunded actuarial accrued liability (approximately 6.0 percent of current covered payroll); the City contributed \$1,458,985 of this total (approximately 15.6 percent of current covered payroll) and the employees contributed \$741,727 (approximately 7.9 percent of current covered payroll).

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Systemwide ten-year trend information may be found in the California Public Employees' Retirement System Annual Reports.

For the year ended June 30, 1988, available assets were sufficient to fund 84 percent of the pension benefit obligation. Unfunded pension benefit obligation represented 58 percent of the annual payroll for employees covered by the PERS for 1988. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the year ended June 30, 1988, the City's contributions to the system, all made in accordance with actuarially determined requirements, were 16 percent of annual covered payroll.

NOTE F--DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan adopted under Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Although the City has not received a ruling from the Internal Revenue Service regarding the eligibility of the plan, the City is not

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LGDI

June 30, 1968

NOTE F--DEFERRED COMPENSATION PLAN (Continued)

aware of any events which may result in an adverse tax ruling. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will be required to use the assets to satisfy the claims of general creditors in the future.

The City's deferred compensation plan has assets and liabilities totaling \$4,080,000 as of June 30, 1988 recorded in an expendable trust fund.

NOTE G--LONG-TERM DEBT

Bonds payable at June 30, 1988 were comprised of the following individual issues:

General obligation bonds:

\$5,500,000 Series A serial bonds, issued in 1965, due in annual installments of \$220,000 to \$290,000 through October 1, 1995; interest: at 6%	\$2,055,000
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\$740,000 Series B serial bonds, issued in 1969, due in annual installments of \$40,000 to \$55,000 through May 1, 1994; interest at 6%	275,000
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\$960,000 Series C serial bonds, issued in 1975, due November 1, 1988; interest at 6%	<u>105,000</u>
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\$2,435,000

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE G--LONG-TERM DEBT (Continued)

Special assessment bonds:

\$1,588,000 Turner Road/Cluff Avenue serial  
bonds, issued in 1981, due in annual  
installments of \$135,000 through July 2, 1994;  
interest at 10%; net of discount of \$150,860  
resulting in an effective interest rate of  
12.64% \$ 659,140

\$388,720 United Downtown Assessment District  
Beautification Project, Series 1984-1, Serial  
Bonds, issued in 1984, due in annual installments  
of \$20,000 to \$45,000 through July 2, 1999;  
interest from 6.50% to 9.90%; less discount of  
\$10,888 324,112  
\$ 983,252

The following is a summary of bond transactions of the City for the year ended June 30, 1988:

	<u>General Obligation</u>	<u>Special Assessment</u>	<u>Total</u>
Bonds payable at July 1, 1987	\$2,790,000	\$1,300,000	\$4,090,000
Bonds retired	<u>355,000</u>	<u>155,000</u>	<u>510,000</u>
Bonds payable at June 30, 1988	<u>\$2,435,000</u>	<u>\$1,145,000</u>	<u>\$3,580,000</u>

Principal payments on debt service requirements are as follows:

1989	\$ 525,000
1990	430,000
1991	450,000
1992	465,000
1993-1999	<u>1,710,000</u>
	<u>\$3,580,000</u>

Series A bonds maturing by their terms on and after October 1, 1988 and all Series B bonds are subject to call and redemption at the option of the City. No bonds were called during the year.



NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE G--LONG-TERM DEBT (Continued)

The City is required to, and has set aside in operating reserve accounts of the special revenue fund, 7% and 5% of the principal of the Turner Road/Cluff Avenue and the United Downtown Assessment District Beautification Project special assessment bonds, respectively, in case of any delinquent assessment levied for retirement of the bonds.

NOTE H--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds which provide electric, sewer, and water services. Segment information for the year ended June 30, 1988 was as follows:

	Electric Utility Fund	Sewer Utility Fund	Water Utility Fund	Total Enterprise Fund
Operating Revenues	\$23,768,381	\$ 2,620,038	\$1,514,444	\$27,907,863
Depreciation Expense	541,140	372,666	198,358	1,112,164
Operating Income	4,636,791	146,399	318,216	5,101,406
Net Operating Transfers Out	3,631,285	15,195	407,595	4,054,075
Tax Revenues		275,234		275,234
Net Income	2,145,915	1,034,047	65,262	3,245,224
Property, Plant, and Equipment Additions	1,067,988	113,524	319,986	1,501,498
Net Working Capital	16,445,156	3,532,820	1,103,419	21,061,395
Total Assets	26,366,155	10,470,662	4,341,064	41,779,681
Total Equity	25,976,422	10,314,946	4,300,354	40,591,722

Electricity service sales to a single customer were approximately 13% of total operating revenues of the electric utility fund in 1986. No other single customer accounted for more than 10% of total operating revenues in the electric utility fund or in any of the other enterprise funds.

NOTE I--MEMBERSHIP IN THE NORTHERN CALIFORNIA POWER AGENCY

The City, along with various other public agencies, is a member of the Northern California Power Agency (NCPA) which was originated for the purpose of exercising their common power to purchase, generate, sell, or interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE I--MEMBERSHIP IN THE NORTHERN CALIFORNIA POWER AGENCY (Continued)

The City, under its contractual obligations, jointly funds the operations and construction and development programs of NCPA. The City has committed, if necessary, to advance certain annual amounts to NCPA in the future for the continuance of construction and development programs. No funding of future advances is contemplated for 1989.

NOTE J--MEMBERSHIP IN THE CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

The City is a member of the California Joint Powers Insurance Authority (California JPIA). Various public agencies formed the California JPIA for the purpose of sharing the risk of catastrophic general liability, automobile liability, and public officials errors and omissions losses because adequate insurance is not available in the commercial insurance market.

The ultimate cost of the program to the City will depend on the catastrophic losses of all the members, as well as the City's own loss experience, and will be determined retrospectively five years after the end of the current program year. The City periodically pays deposits to the California JPIA.

These deposits are recorded as expenditures in the year paid as they are a reasonable estimate of the actual cost of the program. During the year ended June 30, 1988, a deposit of \$218,500 was paid to the California JPIA.

NOTE K--COMMITMENTS AND CONTINGENCIES

The City is involved in various litigation which arose during the normal course of operations. The ultimate amount of possible loss cannot be reasonably estimated, but management believes that any loss incurred as a result of current litigation will not have a material effect on the City's financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1988

NOTE L--SUBSEQUENT EVENT

Subsequent to June 30, 1988, the City issued certificates of participation for the 1988 wastewater treatment plant expansion project in the amount of \$9,415,000. These certificates were issued August 25, 1988 and were dated August 1, 1988. Installment payments are to be made from the net revenues of the sewer system of the City. Annual maturities of \$100,000 to \$755,000 range from August 1, 1989 to August 1, 2018. Interest rates range from 5.25% to 7.80%.

OTHER FINANCIAL INFORMATION

## COHBININC BALANCE SHEET • GENERAL FUND

CITY OF LODI

June 30, 1988

	<u>General.</u>	<u>Stores Inventory</u>	<u>Equipment</u>	<u>Capital Outlay</u>	<u>Work for Others</u>	<u>Totals</u>
<b>ASSETS</b>						
Cash and certificates of deposits	\$1,370,092	\$ 17,976	\$132,891	\$1,868,257	\$(22,699)	\$3,366,517
Investments	833,747	10,899	80,578	1,132,806	(13,763)	2,041,267
Receivables (net of allowances for uncollectibles):						
Refuse	198,573					198,573
Miscellaneous bills collectibl	87,910				28.652	116,562
Interest	71,980					71,080
Due from other funds or governmental agencies				427,600		427,600
Supplies inventory	30	73,910				73,940
Other assets	7,529	60			1,886	9,475
<b>TOTAL ASSETS</b>	<u>\$2,566,861</u>	<u>\$102,845</u>	<u>\$213,469</u>	<u>\$3,428,663</u>	<u>\$ (5,924)</u>	<u>\$6,305,914</u>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>LIABILITIES</b>						
Accounts payable and other liabilities	\$ 402,279	\$ 2,391	\$ 2,166	\$ 3,350	\$ 28,433	\$ 438,569
Accrued salaries and wages	489,602				3,241	492,843
Due to other funds						
Accrued compensated absences	540,465					540,665
<b>TOTAL LIABILITIES</b>	<u>1,432,346</u>	<u>2,391</u>	<u>2,166</u>	<u>3,300</u>	<u>31,674</u>	<u>1,471,877</u>
<b>FUND BALANCES</b>						
Reserved for encumbrances	110,757		26,547	170,307		307,611
Reserved for supplies/inventory		203,301				203,301
Unreserved:						
Designated for subsequent years' expenditures	1,023,758	(102,647)	184,156	3,255,056	(37,598)	4,323,125
<b>TOTAL FUND BALANCES</b>	<u>1,134,515</u>	<u>100,654</u>	<u>211,303</u>	<u>3,425,363</u>	<u>(37,598)</u>	<u>4,834,037</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$2,566,861</u>	<u>\$102,845</u>	<u>\$213,469</u>	<u>\$3,428,663</u>	<u>\$ (5,924)</u>	<u>\$6,305,914</u>

## COMBINING BALANCE SHEET - ALL ENTERPRISE FUNDS

CITY OF LODI

June 30, 1988

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	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and certificates of deposit	\$ 3,105,256	\$ 2,191,643	\$ 521,274	\$11,810,173
Investments	5,520,926	1,328,889	316,072	7,165,877
Receivables (net of allowances for uncollectibles):				
Utility	1,500,532	96,264	93,609	1,690,405
Miscellaneous bills collectible	10,613	1,381	7,624	19,618
Interest	186,126	39,927	11,268	237,321
Due from other fund or governmental agencies				
Supplies inventory	1,112,622	12,282	194,282	1,319,186
Other assets	824	18,150		18,974
Fixed assets	15,531,831	10,634,656	5,651,831	31,818,318
Accumulated depreciation	<u>(6,000,565)</u>	<u>(3,852,530)</u>	<u>(2,454,896)</u>	<u>(12,307,991)</u>
<b>TOTAL ASSETS</b>	<u><b>\$26,960,155</b></u>	<u><b>\$10,470,662</b></u>	<u><b>\$ 4,341,064</b></u>	<u><b>\$41,779,881</b></u>
<b>LIABILITIES AND RETAINED EARNINGS</b>				
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 742,566	\$ 21,452	\$ 22,985	\$ 787,023
Accrued salaries and wages	62,237	23,475	16,232	101,944
Due to other funds				299,192
Accrued compensated absences	186,910	110,789	1,493	
<b>TOTAL LIABILITIES</b>	<u>991,733</u>	<u>155,716</u>	<u>40,710</u>	<u>1,188,159</u>
<b>RETAINED EARNINGS</b>	<u>25,976,422</u>	<u>10,314,946</u>	<u>4,300,354</u>	<u>40,591,722</u>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<u><b>\$26,968,155</b></u>	<u><b>\$10,470,662</b></u>	<u><b><del>\$ 4,341,064</del></b></u>	<u><b>\$41,779,881</b></u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS - ALL ENTERPRISE FUNDS

CITY OF LODI

June 30, 1988

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$23,768,381	\$ 2,620,038	\$1,519,444	\$27,907,862
OPERATING EXPENSES				
Personal services	1,405,100	560,193	370,948	2,336,241
Supplies, materials, and services	1,634,034	1,540,780	630,172	3,804,986
Electric, sewer, and water	15,307,739			15,307,739
Depreciation	541,140	372,666	198,358	1,112,164
Refunds	743,577		1,750	245,327
TOTAL OPERATING EXPENSES	<u>19,131,590</u>	<u>2,473,639</u>	<u>- 1,201,228</u>	<u>22,806,457</u>
NET OPERATING INCOME	<u>4,636,791</u>	<u>146,399</u>	<u>318,216</u>	<u>5,101,406</u>
NONOPERATING REVENUES				
Sewer bond taxes		275,234		275,234
Interest revenue	1,160,202	214,562	73,095	1,447,859
Rent	22,930	77,922	20,914	121,766
Other	(42,723)	335,125	60,632	353,034
TOTAL NONOPERATING REVENUES	<u>1,140,409</u>	<u>902,843</u>	<u>154,641</u>	<u>2,197,893</u>
INCOME BEFORE OPERATING TRANSFERS	<u>5,777,200</u>	<u>1,049,242</u>	<u>472,857</u>	<u>7,299,299</u>
Net operating transfers out	<u>3,631,285</u>	<u>15,195</u>	<u>407,595</u>	<u>4,054,075</u>
NET INCOME	<u>2,145,915</u>	<u>1,034,047</u>	<u>65,262</u>	<u>3,245,224</u>
Retained earnings - July 1, 1987	<u>23,830,507</u>	<u>9,280,899</u>	<u>4,235,092</u>	<u>37,346,498</u>
RETAINED EARNINGS - JUNE 30, 1988	<u>\$25,976,422</u>	<u>\$10,314,946</u>	<u>\$4,300,354</u>	<u>\$40,591,722</u>

Report on Grant Activity, Internal Control  
and Compliance for **Single Audits**

City of Lodi

June 30, 1988

**EW** Ernst & Whinney



CITY OF LODI  
REPORT ON GRANT ACTIVITY, INTERNAL CONTROL AND COMPLIANCE  
FOR SINGLE AUDITS

June 30, 1988

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555 Capitol Mall, Suite 650  
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REPORT ON SUPPLEMENTARY AUDIT  
SCHEDULE OF FINANCIAL ASSISTANCE

City Council  
The City of Lodi  
Lodi, California

We have audited the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1988, and have issued our report thereon dated November 18, 1988. Our audit of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Ernst & Whinney*

November 18, 1988

**SCHEDULE GF FINANCIAL ASSISTANCE  
CITY OF LODI  
Year Ended June 30, 1988**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Cash/ Accrued or (Deferred) Revenue at July 1, 1987 Beginning Balance at July 1, 1987	Receipts or Revenue Recognized	Disburse- ments/ Expen- ditures	Cash/ Accrued or (Deferred) Revenue at June 30, 1988 Ending Balance at June 30, 1988
<b>Major Federal Assistance</b>							
<b>Program</b>							
Department of the Treasury Revenue Sharing	21.300	N/A	\$1,045,691	\$ 0	\$1,045,691	\$1,045,691	\$ 0
<b>Nonmajor Federal Assistance Program</b>							
Department of Transportation passed through State Department of Transportation: Federal Aid Urban	20.205	N/A	1,031,500	6,030	622,960	632,240	(3,250)
Department of Housing and Urban Develop- ment passed through San Joaquin County Community Develop- ment Block Grant	14.219	B-86-UC-06-0009 B-87-UC-06-0109	822,000 683,960	341,120 0	924,988 32,390	1,156,950 7,840	109,158 24,550
TOTAL FEDERAL ASSISTANCE				\$347,150	\$2,626,029	\$2,842,721	\$130,458
<b>State office of Criminal Justice Planning</b>							
Career Criminal Apprehension Program	CA85027235.00	N/A	\$269,165	\$9,807	\$242,295	\$236,743	\$15,359
Community Crime Resistance Program	CA86017235.00	N/A	120,000	0	104,717	108,703	(3,986)
TOTAL OFFICE OF CRIMINAL JUSTICE PLANNING ASSISTANCE				\$9,807	\$347,012	\$345,446	\$11,373

COMPLIANCE REPORT BASED ON AN AUDIT  
OF GENERAL PURPOSE OR BASIC FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH THE  
STANDARDS FOR AUDITS ISSUED BY THE GAO

City Council  
The City of Lodi  
Lodi, California

We have audited the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1988, and have issued our report thereon dated November 18, 1988. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Lodi is responsible for..the City's compliance with laws and regulations.. In connection with our audit referred to above, we selected and tested transactions and records to determine the City's compliance with laws and regulations, noncompliance with which could have a material effect on the general purpose financial statements of the City.

The results of our tests indicate that for the items tested, the City of Lodi, California, complied with those provisions of laws and regulations, noncompliance with which could have a material effect on the general purpose financial statements. Nothing came to our attention that caused us to believe that for the items not tested the City of Lodi, California, was not in compliance with laws or regulations noncompliance with which could have a material effect on the City's general purpose financial Statements.

*Ernst & Whinney*

November 18, 1988



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REPORT ON COMPLIANCE WITH LAWS AND  
REGULATIONS RELATED TO MAJOR AND NONMAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

City Council  
The City of Lodi  
Lodi, California

We have audited the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1985, and have issued our report thereon dated November 18, 1988. Our audit was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Lodi, California, is responsible for the City's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records from each major federal financial assistance program and certain nonmajor federal financial assistance programs. The purpose of our testing of transactions and records from those federal financial assistance programs was to obtain reasonable assurance that the City of Lodi, California, had, in all material respects, administered major programs, and executed the tested nonmajor program transactions, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are identified in the accompanying schedule of findings and questioned costs.

In our opinion, subject to the effect of the ultimate resolution of those instances of noncompliance referred to in the preceding paragraph, for

City Council  
The City of Lodi  
Page Two

the year ended June 30, 1988, the City of Lodi, California, administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

In connection with the audit referred to above, a representative number of transactions including the State Office of Criminal Justice Planning program were selected to determine if State Office of Criminal Justice Planning (SOCJP) funds are being expended in accordance with the terms of applicable agreements and those provisions of state law or regulations that could have a material effect on the financial statements or on the SOCJP program testea. Our testing of transactions and records selected from the SOCJP programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are identified in the accompanying schedule of findings and questioned costs. With respect to the items not tested, nothing came to our attention to indicate that the City of Lodi, California, had not complied with applicable regulations per the SOCJP handbook. All SOCJP items noted in the prior year report have been satisfactorily resolved.

The results of our testing of transactions and records selected from nonmajor federal financial assistance programs indicate that for the transactions and records tested the City of Lodi, California, complied with the laws and regulations referred to in the second paragraph of our report, except as noted in the accompanying schedule of findings and questioned costs. Our testing was more limited than would be necessary to express an opinion on whether the City of Lodi, California, administered those programs in compliance in all material respects with those laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures; however, with respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the City of Lodi, California, had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

*Ernst & Whinney*

November 18, 1988

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF LODI

Year Ended June 30, 1988

Federal Revenue Sharing

Finding: The Federal Revenue Sharing Regulations require recipients to publish notice of the availability for public inspection of the audit report. The City did not publish this notice.

Effect: The public's participation in the Revenue Sharing program may have been impaired due to the non-publication.

Recommendation: The City should publish this notice within thirty days after receipt of future audit reports.

Response: The publishing of the notice was inadvertently overlooked.

Office of Criminal Justice Planning

Finding: The Office of Criminal Justice Planning requires participants to file Form 201 within ten days of the end of the reporting month. The City has not been submitting the monthly report within the stipulated time period.

Effect: The City's right to participate in the program may have been impaired due to noncompliance with the report deadline.

Recommendation: The City should prepare and submit the report within ten days of the end of the reporting month.

Response: The City's reporting system does not enable them to prepare Form 201 within ten days of the end of the reporting month.

REPORT ON INTERNAL ACCOUNTING CONTROLS  
BASED SOLELY ON A STUDY AND EVALUATION  
MADE AS A PART OF AN AUDIT OF THE  
GENERAL PURPOSE OR BASIC FINANCIAL STATEMENTS

City Council  
The City of Lodi  
Lodi, California

We have audited the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1988, and have issued our report thereon dated November 18, 1988. As part of our audit, we made a study and evaluation of the system of internal accounting control of the City of Lodi, California, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Financing
- Revenue/receipts
- Purchases/disbursements
- External financial reporting
- Financial statement captions
  - . Cash and cash equivalents
  - . Receivables
  - . Inventory
  - . Property and equipment
  - . Payables and accrued liabilities
  - . Debt
  - . Fund balance

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.



City Council  
The City of Lodi  
Page Two

The management of the City of Lodi, California, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. **Also,** projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Lodi, California, taken **as** a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the cognizant agency and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the cognizant agent, is a matter of public record.

*Ernst & Whinney*

November 18, 1988



555 Capitol Mall, Suite 650  
Sacramento, California 95814  
916/447-3237

REPORT ON INTERNAL CONTROLS (ACCOUNTING AND  
ADMINISTRATIVE) BASED ON A STUDY AND EVALUATION  
MADE AS A PART OF AN AUDIT OF THE GENERAL  
PURPOSE OR BASIC FINANCIAL STATEMENTS AND THE  
ADDITIONAL TESTS REQUIRED BY THE SINGLE AUDIT ACT

City Council  
The City of Lodi  
Lodi, California

We have audited the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1988, and have issued our report thereon dated November 18, 1988. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards Governmental Organizations, Programs, Activities, and Functions issued by the U.S. General Accounting Office, the Single Audit Act of 1984, and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

- Financing
- Revenue/receipts
- Purchases/disbursements
- External financial reporting
- Grant administration and compliance
  - General Requirements
    - . Political activity
    - . Davis-Bacon Act
    - . Civil rights
    - . Cash management
    - . Relocation assistance and real property acquisition
    - . Federal financial reports
  - Specific Requirements
    - . Types of services
    - . Eligibility
    - . Reporting
    - . Cost allocation
    - . Monitoring subrecipients

The management of the City of Lodi, California, is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended June 30, 1988, the City of Lodi, California, expended 70% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control system used solely in administering the nonmajor federal financial assistance programs of the City of Lodi, California, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the City of Lodi, California, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of the City of Lodi,

City Council  
The City of Lodi  
Page "hree

California. Accordingly, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the City of Lodi, California.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our examination disclosed no condition that we believe to be a material weakness in relation to a federal financial assistance program of the City of Lodi, California.

This report is intended solely for the use of management and the cognizant agency and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Lodi, California, is a matter of public record.

*Ernst & Whinney*

November 18, 1968